

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF CLASSIFICATION AND PRICE
ADJUSTMENTS FOR PICTURE PERMIT
IMPRINTS

Docket No. R2012-7

UNITED STATES POSTAL SERVICE
NOTICE OF MARKET DOMINANT CLASSIFICATION AND PRICE CHANGES
FOR PICTURE PERMIT IMPRINT INDICIA
(March 28, 2012)

Pursuant to section 3622 of title 39 and 39 C.F.R. part 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to adjust the classification language and prices for its market dominant products. The adjustments described herein, which affect First-Class Mail[®] and Standard Mail[®] prices, are planned to take effect at 12:01 AM on June 24, 2012. In this Notice, the Postal Service provides the information required by Rule 3010.14, including a description of the price changes.

The Postal Service certifies that it will inform customers of these classification and price adjustments, as required by Rule 3010.14(a)(3). In addition to this Notice, the Postal Service will be publishing notice of these changes shortly in the *DMM Advisory* and the *P&C Weekly*, as well as issuing a Press Release. Thus, widespread notice is being given more than 45 days prior to the planned implementation date. Furthermore, the Postal Service plans to provide public notice of these changes in future issues of the *PCC Insider*, *MailPro*, *Postal Bulletin*, and *Federal Register*.

The Postal Service, pursuant to Rule 3010.14(a)(4), identifies Mr. Steven Monteith as the official who will be available to provide responses to queries from the Commission. Mr. Monteith's contact information is as follows:

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The remainder of this Notice is structured as follows. In Part I, the Postal Service describes the changes to the classifications and pricing for First-Class Mail and Standard Mail. In Part II, the Postal Service discusses its compliance with the price cap. In Part III, the Postal Service discusses how its prices are consistent with the objectives and factors of section 3622 and the preferential pricing requirements of section 3626.

I. Description of Adjustments

The Postal Service proposes to implement Picture Permit Imprint Indicia as price categories for First-Class Mail and Standard Mail letters and cards. The Picture Permit Imprint Indicia is an innovative use of the Permit Indicia space that affords prospective customers the opportunity and ability to brand and advertise their products and services on the mail piece.

Over the years, customers have asked for the ability to use their corporate logos or products in the Permit Indicia space of the envelope. In response, the Postal Service has developed guidelines, requirements and other specifications for the use of images in the permit indicia area of the mail piece. Mailpieces have been tested in the

mailstream. As a result, the Postal Service believes that limited use of the Permit Indicia space of the envelope should be permitted, at an appropriate price.

Market research on the value of Picture Permit shows that customers believe that Picture Permit imprints will have the most impact on the value perception of mail, and a more limited impact on mail volume. Most mailers indicated they would use Picture Permit imprints for existing volume, although some said they would increase their volume. Nine percent of First-Class Mail commercial customers and twelve percent of Standard Mail customers indicated they would be willing to pay a small premium to use Picture Permit imprints.

The proposed Picture Permit Imprint Indicia will directly help to keep mailers using the mail, increase the interest of mail recipients in the mail they receive, and generate higher revenue per piece through a per piece charge over and above postage.

The price category is applied to First-Class Mail and Standard Mail letters and cards. All mailings must be IMb Full Service, with the Picture Permit imprints approved by the Postal Service. The customer is responsible to defend against legal challenges to use of the image, and will pay 1 cent per piece for First-Class Mail and 2 cents per piece for Standard Mail.

II. Price Cap Compliance

Because the proposed price adjustments do not change the prices for any existing First-Class Mail or Standard Mail price categories, but simply add new options, the Postal Service believes that the proposed adjustments have no impact on price cap issues. Therefore, the Postal Service has made no calculations of cap or price changes described in Rules 3010.14(b)(1) through (4).

III. Objectives and Factors and Workshare Discounts

In compliance with Rules 3010.14(b)(5) through (8), the Postal Service in this section discusses how the planned changes “help achieve” the objectives of section 3622(b) and “properly take into account” the factors of section 3622(c); and how, or if, they impact workshare discounts.

A. Objectives and Factors

The objectives of section 3622(b) are as follows:

- (b) Objectives.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:
- (1) To maximize incentives to reduce costs and increase efficiency.
 - (2) To create predictability and stability in rates.
 - (3) To maintain high quality service standards established under section 3691.
 - (4) To allow the Postal Service pricing flexibility.
 - (5) To assure adequate revenues, including retained earnings, to maintain financial stability.
 - (6) To reduce the administrative burden and increase the transparency of the ratemaking process.
 - (7) To enhance mail security and deter terrorism.
 - (8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

- (9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

(c) Factors.—In establishing or revising such system, the Postal Regulatory Commission shall take into account—

- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;

- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
- (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
- (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
- (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
 - (A) either—
 - (i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
 - (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and
 - (B) do not cause unreasonable harm to the marketplace.

- (11) the educational, cultural, scientific, and informational value to the recipient of mail matter;
- (12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;
- (13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and
- (14) the policies of this title as well as such other factors as the Commission determines appropriate.

1. First-Class Mail

To a large extent, adding the Picture Permit imprint price category does not substantially alter the degree to which First-Class Mail prices already address the Objectives of section 3622(b), or they are addressed by the design of the system itself (Objectives 1, 2, 3, 6, 7, 8, and 9).

The new price category is an example of the increased flexibility allowed the Postal Service under PAEA (Objective 4), and also is expected to enhance the financial position of the Postal Service (Objective 5).

Similarly, the new price category does not substantially alter the degree to which First-Class Mail prices address many of the Factors of section 3622(c) (Factors 4, 5, 6, 8, 9, 10, 11, 12, 13, and 14). The price category increases the value of the mail to both senders and recipients, and therefore encourages increased mail volume (Factors 1 and 7). In addition, by charging for an attractive new option that does not increase Postal Service costs significantly, the price category will help First-Class Mail cover its attributable costs (Factor 2).

2. Standard Mail

To a large extent, the Standard Mail changes do not substantially alter the degree to which Standard Mail prices already address the Objectives of section 3622(b), or they are addressed by the design of the system itself (Objectives 1, 2, 3, 6, 7, 8, and 9).

The establishment of the new price categories is an example of the increased flexibility allowed the Postal Service under PAEA (Objective 4). Moreover, the price categories will increase the contribution of existing mail, and attract new mail that will enhance the financial position of the Postal Service (Objective 5).

The new price categories also do not substantially alter the degree to which Standard Mail prices address many of the Factors of section 3622(c) (Factors 1, 4, 5, 6, 8, 9, 10, 11, 12, 13, and 14). The Picture Permit imprint price categories increase the value of the mail to both senders and recipients, and therefore encourage increased mail volume (Factor 7) by making Standard Mail more attractive to mail senders and recipients (Factor 3). In addition, by charging for an attractive new option that does not increase Postal Service costs significantly, the initiative will help Standard Mail cover its attributable costs (Factor 2).

B. Workshare Discounts

None of the price changes impacts workshare discounts for First-Class Mail or Standard Mail.

C. Preferred Rates

The same prices for Picture Permit imprints will apply to Nonprofit pieces entered as Standard Mail High Density and Saturation Letters, Carrier Route, and Letters. Based on the limited volumes expected to use the new price categories, the Postal

Service expects that the ratio between nonprofit and commercial prices will remain close to 60 percent, thus meeting the statutory requirement in 39 U.S.C. § 3626(a)(6).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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MAIL CLASSIFICATION CHANGES
(Additions are underlined and deletions are marked with strike-through)

PART A

MARKET DOMINANT PRODUCTS

1000 MARKET DOMINANT PRODUCT LIST

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1100 First-Class Mail

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1110 Presorted Letters/Postcards

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1110.4 Optional Features

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- Picture Permit Imprint Indicia

1110.5 Prices

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Move Update Assessment Charge

Add \$0.07 per assessed piece, for mailings with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

Picture Permit Imprint Indicia

Add \$0.01 for each piece that includes Picture Permit Imprint Indicia

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1200 Standard Mail (Commercial and Nonprofit)

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1205 High-Density and Saturation Letters

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1205.5 Optional Features

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- Picture Permit Imprint Indicia
- ~~Saturation and High Density Incentive Program (Expires December 31, 2011)~~

1205.6 Prices

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Full-service Intelligent Mail Option

Subtract \$0.001 for each letter that complies with the requirements for the full-service Intelligent Mail option.

Picture Permit Imprint Indicia

Add \$0.02 for each letter that includes Picture Permit Imprint Indicia

1215 Carrier Route

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1215.5 Optional Features

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- Full-service Intelligent Mail Option: letters and flats only
- Picture Permit Imprint Indicia (Letters Only)

1215.6 Prices

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Full-service Intelligent Mail Option: letters and flats only

Subtract \$0.001 for each carrier route letter or flat that complies with the requirements for the full-service Intelligent Mail option.

Picture Permit Imprint Indicia: letters only

Add \$0.02 for each letter that includes Picture Permit Imprint Indicia

1220 Letters

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1220.5 Optional Features

The following additional services may be available in conjunction with the product specified in this section:

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- Full-service Intelligent Mail Option: automation letters only
- Picture Permit Imprint Indicia

1220.6 Prices

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Full-service Intelligent Mail Option: automation letters only

Subtract \$0.001 for each automation letter that complies with the requirements for the full-service Intelligent Mail option.

Picture Permit Imprint Indicia

Add \$0.02 for each letter that includes Picture Permit Imprint Indicia